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RESULTS-ORIENTED CULTURES

Insights for U.S. Agencies from Other Countries' Performance Management Initiatives

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Highlights

RESULTS-ORIENTED CULTURES
Insights for U.S. Agencies from Other Countries' Performance Management Initiatives

Highlights of GAO-02-862, a report to Subcommittees on International Security, Proliferation, and Federal Service and on Oversight of Government Management, Restructuring, and the District of Columbia, Senate Committee on Governmental Affairs

Why GAO Did This Study

Strategic human capital management is a high-risk area that threatens the federal government's ability to effectively serve Americans. An essential element to developing and managing the human capital needed to achieve organizational results is the link between individual performance and organizational goals. Performance management systems provide one way to make this link. Governments and agencies in Australia, Canada, New Zealand, and the United Kingdom have used their performance management systems to connect employee performance with organizational success to help foster a results-oriented organizational culture. Creating such a culture is one cornerstone identified in GAO's model of strategic human capital management.

GAO initiated this study to identify how selected agencies are strategically using their performance management systems. GAO talked with key human capital decision makers from each country including national audit offices, central management and human capital agencies, and line agencies, as well as representatives of employee associations.

What GAO Found

As U.S. agencies consider reforms to their performance management systems, experiences in Australia, Canada, New Zealand, and the United Kingdom provide insights of how to use such systems as a tool to create a results-oriented culture. These countries are doing the following:

Creating a "line of sight" between individual and organizational goals. Agencies use performance agreements to align and cascade organizational goals with individual performance. In Australia, one agency cascades departmental goals down to specific commitments in individual performance agreements for its entire staff. Performance agreements are also used to link individual performance expectations to crosscutting goals. In Canada, a department uses performance agreements to identify the departmental crosscutting priorities to which an executive's specific performance commitment contributes and the other organizations whose collaboration is needed to achieve it.

Using competencies to provide a fuller assessment of individual performance. Agencies complement assessments of the results an individual achieved with a consideration of the skills and abilities used to achieve them. In the United Kingdom, performance agreements for senior executives include both results-oriented business objectives and certain competencies that these executives are expected to demonstrate in order to effectively achieve their business objectives.

Linking pay to individual and overall organizational performance. Agencies award sizable individual performance pay based on clear criteria, and in some cases, also emphasize the achievement of organizational goals, while others identified challenges with linking pay to performance. In the Canadian Province of Ontario, an individual executive's performance pay is based on the performance of the provincial government as a whole, the executive's home ministry, the ministry's contribution to governmentwide results, as well as the individual's own performance. The amount of the award can range up to 20 percent of base salary. An Australian agency encountered challenges when it tried to link pay with performance because employees felt the system was applied inconsistently.

Fostering organizationwide commitment to results-oriented performance management. Agencies recognize the importance of top leadership commitment and actively involved employees, unions or associations, and other stakeholders when reforming their performance management systems. In New Zealand, one department, in cooperation with the union, asked employees to vote on performance measures before they would be used in their individual assessments.

This is a test for developing highlights for a GAO report. The full report, including GAO's objectives, scope, methodology, and analysis is available at www.gao.gov/cgi-bin/getrpt?GAO-02-862. For additional information about the report, contact J. Christopher Mihm (202-512-6806). To provide comments on this test highlights, contact Keith Fultz (202-512-3200) or e-mail HighlightsTest@gao.gov.

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Abbreviations

AAFC	Agriculture and Agri-Food Canada
ANAO	Australian National Audit Office
APEX	Association of Professional Executives of the Public Service of Canada
APSC	Australian Public Service Commission
ATO	Australian Taxation Office
CYF	Department of Child, Youth, and Family Services (New Zealand)
DEWR	Department of Employment and Workplace Relations (Australia)
IRD	Inland Revenue Department (New Zealand)
MBS	Management Board Secretariat (Ontario)
OECD	Organisation for Economic Co-operation and Development
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OPS	Ontario Public Service
PMP	Performance Management Program (Canada)
PSA	Public Service Association (New Zealand)
SCS	Senior Civil Service (United Kingdom)

United States General Accounting Office
Washington, D.C. 20548

August 2, 2002

The Honorable Daniel K. Akaka
Chairman
The Honorable Thad Cochran
Ranking Minority Member
Subcommittee on International Security, Proliferation, and
Federal Services
Committee on Governmental Affairs
United States Senate

The Honorable Richard J. Durbin
Chairman
The Honorable George V. Voinovich
Ranking Minority Member
Subcommittee on Oversight of Government Management,
Restructuring, and the District of Columbia
Committee on Governmental Affairs
United States Senate

Leading organizations have long understood the relationship between managing people—their human capital—and achieving organizational success. An organization's people define its culture, drive its performance, and embody its knowledge base. In fact, strategic human capital management serves as the foundation for any serious transformation and change management initiative.

Strategic human capital management is a pervasive challenge facing public sector organizations both here and abroad. In January 2001, we identified strategic human capital management as a high-risk area for the U.S. federal government after finding that a lack of attention to strategic human capital management had created a risk to the federal government's ability to effectively serve the American people.[1] The fundamental problem has been the long-standing lack of a consistent strategic approach to marshalling, managing, and maintaining the human capital needed to maximize government's performance and assure accountability.

[1]U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-01-263 (Washington, D.C.: January 2001).

In an effort to help agency leaders integrate human capital considerations into daily decision making and into the program results they seek to achieve, in March 2002 we released an exposure draft of a model of strategic human capital management that highlights the kinds of thinking that agencies should apply and steps they can take to manage their human capital more strategically.[2] As detailed in that model, a cornerstone of effective strategic human capital management is to develop an organizational culture that focuses on results. One way leading organizations develop such a culture is to use their individual performance management systems to help achieve organizational goals. Effective performance management systems seek to provide candid and constructive feedback to help individual employees maximize their potential in understanding and realizing organizational goals and objectives, provide management with the objective and fact-based information it needs to reward top performers, and provide the necessary information and documentation to deal with poor performers. We have also observed that modernizing agency performance management systems and linking them to agency strategic plans and desired outcomes should be a top priority.[3] To that end, we will soon issue a report on selected agencies' performance management systems for senior executives and their use of a set of balanced expectations to hold them accountable for results.

[2] U.S. General Accounting Office, *A Model of Strategic Human Capital Management*, GAO-02-373SP (Washington, D.C.: Mar. 15, 2002).

[3] U.S. General Accounting Office, *Managing for Results: Using Strategic Human Capital Management to Drive Transformational Change*, GAO-02-940T (Washington, D.C.: July 15, 2002).

The United States is not alone in examining how government agencies can use their performance management systems as a tool to foster a more results-oriented organizational culture. The Organisation for Economic Co-operation and Development (OECD) has reported that its member nations have increasingly moved towards performance pay and appraisal systems that reward employees, hold them accountable for the quality of their work, and connect their efforts to organizational results.[4]

We are addressing this report to you because of your ongoing interest in federal human capital issues and how agencies can effectively manage their human capital to achieve their organizational goals. Our objective for this report was to describe how four OECD member countries—Australia, Canada, New Zealand, and the United Kingdom—have begun to use their performance management systems to help their governments achieve results. The experiences of these four countries may prove valuable to federal agencies in the United States as they develop their own initiatives to integrate individual performance with the achievement of organizational goals. Similar to the United States, these countries have been implementing results-oriented management reforms over the past decade. We identified the examples described in this report through evaluations by and discussions with government and audit office officials in these countries. However, since we did not attempt to assess the prevalence of the practices either within or across the four countries, agencies other than those cited may also be using similar practices or approaches. In addition, we did not independently evaluate the effectiveness of the performance management systems used in the four countries nor the impact these systems may have had on agency performance. See appendix I for additional information on our objective, scope, and methodology.

These countries are experiencing challenges in managing their human capital, and in particular, managing individual performance. Australia has identified the credibility of its performance management systems as one of the key human capital challenges it faces. In 1999, Canada implemented a

[4]Organisation for Economic Co-operation and Development, *Programme and Country Reports*, *Governing for Performance: OECD/Germany High-level Symposium* (Paris: Feb. 27, 2002); *Recent Developments and Future Challenges in Human Resource Management in OECD Member Countries: Background Paper* (Paris: June 29, 2000); *Performance Pay Schemes for Public Sector Managers: An Evaluation of the Impacts*, *Public Management Occasional Papers*, No. 15 (Paris: 1997); and *Private Pay for Public Work: Performance-Related Pay for Public Sector Managers* (Paris: 1993). Information on these and other OECD reports on human capital and performance management is available at http://www.oecd.org.

significant reform of its performance management and reward system for senior executives after a review found the previous system created a lack of trust between senior executives and the government. New Zealand found that deficiencies in individual performance management systems threatened the capability of agencies to deliver on their missions. Finally, the United Kingdom identified the need to improve performance management systems after finding that complex and inconsistent performance management practices could deter employees from taking on more responsibility and inhibited the government from offering significant rewards to top performers.

Results in Brief

While the performance management initiatives in Australia, Canada, New Zealand, and the United Kingdom reflect their specific organizational structures, cultures, and priorities, their experiences with developing and implementing results-oriented individual performance management initiatives may provide U.S. federal government agencies with information and insights as they undertake their own initiatives to implement strategic human capital practices. These countries have begun to use their performance management systems to

- create a “line of sight” between individual and organizational goals,
- use competencies to provide a fuller assessment of individual performance,
- link pay to individual and overall organizational performance, and
- foster organizationwide commitment to results-oriented performance management.

First, agencies use their performance management systems to create a line of sight in order to clearly demonstrate how an individual’s performance contributes to the overall goals of the organization as well as to broader governmentwide priorities. For example, performance management systems in Canada and Australia require performance agreements of top agency leadership to align with overall organizational goals and then cascade down to lower-level executives, managers, and staff. In addition, performance agreements align individual commitments to crosscutting goals. For example, Agriculture and Agri-Food Canada uses performance agreements to communicate the connections between individual performance commitments and departmental crosscutting goals, and to

identify organizational units both inside and outside the agency whose collaboration is needed to achieve those commitments. The Canadian Performance Management Program uses performance agreements to align the individual performance commitments of the deputy ministers in charge of its agencies with broader governmentwide priorities.

Second, agencies use competencies, in addition to considering an individual's contribution to achieving results, in order to provide a fuller assessment of individual performance. The United Kingdom, Australia, and New Zealand assessed employee performance by considering both what an individual achieved and the competencies he or she used to achieve it. For example, performance agreements that the United Kingdom's Senior Civil Service uses contain both results-oriented business objectives and certain core competencies that these executives are expected to demonstrate in order to effectively achieve these objectives. New Zealand's Inland Revenue Department evaluates the performance of all staff against a core group of competencies and may also include a set of technical competencies for those individuals in specialized positions.

Third, agencies link individual pay to individual and organizational performance. Governmentwide performance management systems for senior executives in the United Kingdom and Canada emphasize this link by offering significant performance awards, including salary increases, one-time bonuses, or a combination of the two. The United Kingdom awards top-performing senior executives salary increases and bonuses up to a maximum of 20 percent of base pay.[5] Under Canada's Performance Management Program, a significant portion of an executive's total cash compensation package takes the form of "at-risk" pay, a lump-sum payment that can range up to 25 percent of base pay. Both of these performance management systems link pay to performance through clearly articulated criteria and neither system allows for any pay increases solely on the basis of seniority or length of service. Other agencies, on the other hand, such as Australia's Centrelink encountered challenges when linking pay with performance. In response to employee concerns about the consistency and fairness of performance awards, the agency is considering whether to discontinue performance pay.

[5]Individual U.S. agencies are responsible for determining which of its Senior Executive Service employees will receive performance bonuses and the amounts. Bonuses can range from 5 to 20 percent of the individual executive's base pay.

In addition to considering individual performance, the Ontario Public Service and the Australian Taxation Office also place considerable weight on whether, and to what extent, organizational results were achieved when awarding performance pay to individuals. For example, the amount of performance pay an executive in the Ontario Public Service is eligible to receive is linked to the performance of the provincial government as a whole, the performance of the executive's agency, the contribution of that agency to overall governmentwide results, as well as the individual's own performance.

Fourth, agencies demonstrate a sustained organizationwide commitment to making individual performance management more results-oriented. Top leadership demonstrated its commitment by initiating governmentwide efforts to reform performance management systems. For example, in both Canada and the United Kingdom, top civil service officials identified governmentwide performance management as a key concern and continued to support reform efforts throughout their development and implementation. They also actively used performance agreements themselves.

Another way agencies seek to foster commitment in more results-oriented performance management systems is to involve stakeholders and include employee perspectives when designing or reforming their performance management systems. For example, the United Kingdom, Canada, and New Zealand all involved employees and union or association officials when developing new performance management systems to improve employee acceptance before major changes were implemented. Agencies consulted a wide range of stakeholders early in the process, obtained feedback directly from employees, and engaged employee unions or associations throughout development and implementation.

We provided drafts of the relevant sections of this report to officials from the central agencies responsible for human capital issues, the individual agencies, and the national audit offices for each of the countries we reviewed. They generally agreed with the contents of this report. We made minor technical clarifications where appropriate. We also provided a draft of this report to the Director of the Office of Personnel Management (OPM) for her information.

Background

Strategic human capital management, and specifically the need to develop results-oriented organizational cultures, is receiving increased attention in

the United States as the federal government comes to grapple with the cultural transformation implications of the transition under way in government, including basic questions about what government does, how it does it, and who does the government's business. Momentum for reform has been building with the Congress, OPM, the Office of Management and Budget (OMB), and agencies themselves all taking important steps. The Congress has underscored the consequences of existing human capital weaknesses through a wide range of oversight hearings held over the last few years. In recognizing the importance of creating a results-oriented culture in federal agencies, the Congress is considering legislative proposals to, among other things, focus attention on the impact poor performance can have on the effectiveness of an organization and require agencies to have chief human capital officers to select, develop, and manage a productive, high-quality workforce.

In addition, the President's Management Agenda, released in August 2001, identified human capital as one of five key governmentwide management challenges currently facing the federal government. Subsequently, OPM and OMB developed criteria that included the creation of a performance culture that assesses and rewards employees based on their contributions to organizational goals as a key dimension of effective human capital management.

In our model of strategic human capital management, we identify two critical success factors that can assist organizations in creating results-oriented cultures. The first critical factor is to empower and include employees in setting and accomplishing the organization's programmatic goals. Our work suggests ways of accomplishing this step such as demonstrating top leadership commitment to management reforms and actively engaging employee groups when carrying out such reforms.[6]

[6]Most recently, see U.S. General Accounting Office, *Human Capital: Practices that Empowered and Involved Employees*, GAO-01-1070 (Washington, D.C.: Sept. 14, 2001).

The second critical success factor of a results-oriented culture is to link unit and individual performance to organizational goals. At the most senior level, one way to encourage accountability within an organization is through the use of executive performance agreements. Our work has shown that agencies have benefited from using results-oriented performance agreements for political and senior career executives.[7] Although each agency developed and implemented performance agreements that reflected its specific organizational priorities, structures, and cultures, the performance agreements shared the following characteristics. They

- strengthened alignment of results-oriented goals with daily operations,
- fostered collaboration across organization boundaries,
- enhanced opportunities to discuss and routinely use performance information to make program improvements,
- provided a results-oriented basis for individual accountability, and
- maintained continuity of program goals during leadership transitions.

As a result of amended OPM regulations that change the way agencies evaluate members of the Senior Executive Service governmentwide, agencies are to place increased emphasis on holding senior executives accountable for organizational goals. While agencies can tailor their performance management systems to their unique organizational requirements and climates, they are to hold executives accountable for results; appraise executive performance on those results balanced against other dimensions, including customer satisfaction and employee perspective; and use those results as the basis for performance awards and other personnel decisions. Agencies were to implement the new policies for the Senior Executive Service appraisal cycles that began in 2001.

OPM has found that agencies are not making meaningful distinctions among senior executive performance. Specifically, agencies rated about 85 and 82 percent of senior executives at the highest level their systems permit in their performance ratings in fiscal years 2000 and 2001,

[7]U.S. General Accounting Office, *Managing for Results: Emerging Benefits From Selected Agencies' Use of Performance Agreements*, GAO-01-115 (Washington, D.C.: Oct. 30, 2000).

respectively. In addition, OPM data show that governmentwide approximately 52 percent of senior executives were rated and received bonuses each year since fiscal year 1999. From fiscal year 1999 through 2001, the average bonus payments increased from about $10,200 to about $12,300.

Countries' Performance Management Systems

The four countries included in our review have taken a wide range of approaches to individual performance management.

Australia. Australia decentralized responsibility for setting and implementing most human capital policies to agencies in 1999. Under Australian law, agencies are required to establish performance management systems for their employees. Because agency chief executives are given broad discretion in how their performance management systems are structured, there is considerable variation both among different agencies and within individual agencies. Typically, the agency negotiates with either an individual or a group of employees over the specific features of the performance management system, such as performance expectations, salary, and bonuses. The Australian Public Service Commission (APSC) and the Department of Employment and Workplace Relations (DEWR) are the central government agencies that provide support and guidance to agencies to help them design, implement, and review performance management and pay systems that comply with legislative and policy requirements. For more information on the role of APSC and other key decision makers, and for Internet links to the specific Australian agencies mentioned in this report, see appendix II.

Canada. While Canada has taken steps over the last several years to increase the role of individual agencies in setting and implementing human capital policies, three central agencies—the Privy Council Office, the Treasury Board of Canada Secretariat, and the Public Service Commission—set and implement many aspects of human capital policy. For example, the central government coordinates a governmentwide system for managing the performance of its top civil servants and executives but allows some flexibility on the part of the agencies that are responsible for administering the program. Individual agencies may establish their own performance management systems below the executive level. In the provincial government of Ontario, the Cabinet Office and the Management Board Secretariat set human capital management policy and share responsibility for implementing performance management systems in the provincial government. For more information on the role of the major

human capital decision makers in both Canada and Ontario, and for Internet links to the specific Canadian agencies mentioned in this report, see appendix III.

New Zealand. In New Zealand, individual agencies are responsible for setting and implementing most human capital policies, including the creation of performance management systems. As a result of this decentralization, performance management systems vary across the New Zealand government. The State Services Commission, the central government agency that monitors the human capital policies and practices of agencies, works to provide chief executives and their departments with data, advice, and examples of good practices related to human capital issues including performance management. For more information on the role of the State Services Commission and other key decision makers, and for Internet links to the specific New Zealand agencies mentioned in this report, see appendix IV.

United Kingdom. The United Kingdom's Cabinet Office has a key role in setting and implementing the central government's overall human capital policies. In particular, the Cabinet Office is directly responsible for policies concerning the United Kingdom's top executive cadre, the Senior Civil Service (SCS). Over the past few decades, the responsibility for human capital policies in the United Kingdom at grades below SCS has become increasingly decentralized, so that individual agencies can develop performance management systems to meet their own specific needs and circumstances. For additional information on the role of the Cabinet Office and other key decision makers, and for Internet links to the specific United Kingdom agencies mentioned in this report, see appendix V.

Creating a Line of Sight between Individual and Organizational Goals

Leading organizations recognize that a key element of an effective performance management system and cultural transformation is to create a line of sight that shows how individual performance can contribute to organizational goals. Similar to the United States, agencies in other countries are placing a greater emphasis on achieving this alignment between individual and organizational results. A first step towards this end is to align the performance expectations of top leadership with organizational goals and then cascade those expectations down to lower levels. Our work has shown that while many U.S. federal agencies continue to struggle with understanding the link between individuals' day-to-day activities and broader agency or governmentwide results, agencies both in the United States and abroad use tools such as performance agreements to help strengthen this connection.[8] Countries use performance agreements between an employee and supervisor to (1) align and cascade agency organizational goals down to individual performance expectations and (2) link individual performance expectations to crosscutting goals.

Cascading Performance Expectations within an Organization

Agencies in Canada and Australia use performance agreements to align and cascade individual performance expectations to organizational goals through several levels in their organizations.

Canada's Performance Management Program (PMP) cascades goals down through all levels of senior executives. It requires that each department's deputy minister—the senior career public service official responsible for leading Canadian government departments—has a written performance agreement that links his or her individual commitments to the organization's business plan, strategies, and priorities. From the deputy minister, commitments cascade down through assistant deputy ministers, directors general, and directors. At every level, the performance agreement between each executive and his or her manager is intended to document a mutual understanding about the performance that is expected and how it will be assessed. Some agencies, such as Industry Canada and the Public Service Commission, have established their own programs to cascade commitments below the director level and require the use of performance agreements for some middle managers or supervisors within their organizations.

[8] GAO-01-115.

The Ontario Public Service (OPS) uses performance agreements to align and cascade performance goals down to all organizational levels and all employees. Since 1996, OPS has required senior executives to have annual performance agreements that link their performance commitments to key provincial priorities and approved ministry business plans. In 2000, OPS extended this requirement so that agreements are now required of all employees from senior executives to frontline employees. Specifically, all employees develop individual performance commitments that link to their supervisors' performance agreements and their ministries' business plans. Senior executives and some middle-level managers and specialists also link commitments contained in their individual performance plans to the government of Ontario's key provincial priorities in areas such as fiscal control and management, human capital leadership, and fostering a culture of innovation.

In Australia, DEWR implemented a business planning model in fiscal year 2000–2001 that cascades departmental goals so they correspond to specific expectations in individual performance agreements. For example, to help achieve DEWR's outcome goal of improving the performance of the Australian labor market by the efficient and equitable matching of people to jobs, the Department identified as one of its priorities to "develop, implement, and manage…the Work for the Dole," a program intended to provide work experience to job seekers. DEWR cascades this priority down to an individual's performance expectation to "fully develop the Community Work Coordinators model," a particular tool used to manage the placement of job seekers. In a 2001 review of performance management systems across the federal public service, the Australian Management Advisory Committee, a permanent committee of department secretaries and agency heads established by law to provide advice to government on management issues, cited DEWR as a good example of aligning organizational and individual performance planning and cascading performance goals.

Linking Performance Expectations to Crosscutting Goals

As public sector organizations shift their focus of accountability from outputs to results, they have recognized that achieving those results often transcends specific organizational boundaries. To this end, Canada uses performance agreements to (1) help identify the crosscutting connections both within and between agencies and (2) align the performance expectations of top-level executives to governmentwide priorities.

Canada's agricultural department, Agriculture and Agri-Food Canada (AAFC), uses performance agreements to specify which of six departmental crosscutting priorities a branch head's specific performance commitment contributes to and the internal or external organizations whose collaboration is needed to deliver on that commitment. For example, the head of AAFC's Market and Industry Services Branch has in his 2001–2002 performance agreement the commitment to "lead efforts to develop AAFC's ability to deal with emerging technical trade issues." The agreement indicates that this commitment aligns with the Department's crosscutting priority area focusing on "international issues." The agreement also lists two internal units whose collaboration is needed to meet the commitment, the agency's Research Branch and its Strategic Policy Branch, as well as two external organizations—the Canadian Food Inspection Agency and Health Canada. While the performance agreement provides a vehicle for identifying and communicating the various organizations associated with each commitment, AAFC leaves it up to the executives to determine how to collaborate with them when working to fulfill their agreements.

To further increase staff understanding of how they contribute to the Department's crosscutting priorities, AAFC put the performance agreements for all branch heads on its computer network. A senior human capital official told us that, while not required to do so, many executives below the branch head level also include direct references to crosscutting priorities and collaborating organizations in their performance agreements. While AAFC has not conducted an evaluation on the effectiveness of using the performance agreements of its branch heads to identify crosscutting areas between branches and outside agencies, this AAFC official told us that using performance agreements in this way helps to reinforce the importance of collaboration to achieve results-oriented goals.

Under PMP, Canada also uses performance agreements to align the efforts of top-level executives to governmentwide priorities. Specifically, deputy ministers are required to align commitments contained in their individual performance agreements to governmentwide priorities that the Clerk of the Privy Council—the head of the Canadian Public Service—sets annually. In the 2000–2001 fiscal year, such priorities included improving governmentwide capacity to recruit, retain, and develop its human capital; emphasizing diversity in the workplace; and using e-government and other technologies to better serve Canadians. For example, to advance the government's agenda to recruit, retain, and develop human capital, a deputy minister included a commitment in his performance agreement for

that year to provide “excellent leadership and management of the Department [in the area of] human resource management.” This included taking steps to develop the future human resource capacity of the department and meet departmental commitments in governmentwide initiatives such as the Universal Classification Standard, a reform of job classifications.

During the initial implementation of this requirement to align executives’ performance agreements with governmentwide priorities, Canadian officials found that there were too many governmentwide priorities for deputy ministers to easily link them to specific objectives of their own. Subsequently, they limited governmentwide priorities to a few key areas where results were of particular importance. According to a senior Canadian official involved in the program, this change helped to focus the deputy ministers’ performance agreements as management tools to direct change.

Using Competencies to Provide a Fuller Assessment of Performance

When evaluating employee contributions to results, agencies in other countries use competencies as a tool to examine how they have achieved those results. Competencies, which define the skills or supporting behaviors that employees are expected to exhibit as they effectively carry out their work, can provide a fuller picture of an individual’s performance. OPM has reported that the U.S. federal government, with some exceptions, has not linked competencies with performance pay. Performance management systems in the United Kingdom, Australia, and New Zealand consider competencies in their evaluations of staff.

In the United Kingdom, SCS performance agreements include both business objectives and certain core competencies that senior executives should develop in order to effectively achieve these objectives. For example, an SCS executive and his or her supervisor select one or two competencies, such as “thinking strategically,” “getting the best from people,” or “focusing on delivery.” Each competency is further described by several specific behaviors. For example, the competency of “getting the best from people” includes behaviors such as “developing people to achieve high performance;” “adopting a leadership style to suit different people, cultures, and situations;” “coaching individuals so they achieve their best;” and “praising achievements and celebrating success.” The supervisor evaluates the executive’s demonstration of these selected competencies and the achievement of business objectives when determining the size of the annual pay award.

When evaluating individuals, Australia's DEWR reviews an individual's performance against key business priorities and his or her behavior against DEWR's values. DEWR has identified six values—teamwork, respect, openness, professionalism, integrity, and creativity—and incorporates these values into the performance assessment process. Individuals receive separate ratings for performance against key business priorities and for the demonstration of the Department's values. While DEWR considers contributions to business priorities to be important, it also places significant weight on a person's demonstration of values. For example, an employee receiving a rating of "outstanding" in the achievement of business priorities and "unsatisfactory" in the demonstration of values could receive an overall "unsatisfactory" performance rating for the year. DEWR provides an assessment assistance package to managers to help maintain the objectivity and consistency of ratings across the organization.

In New Zealand, the Inland Revenue Department (IRD) evaluates the performance of its employees against results and core and technical competencies and weights these results and competencies differently in each employee assessment depending on the position. All employees are evaluated on their commitments to deliver results, which account for 40 to 55 percent of their overall performance assessments. In addition, all employees are evaluated against core organizational competencies such as customer focus, strategic leadership, analysis and decision making, and communication, which make up 20 to 50 percent of their assessments. Some employees who have special knowledge and expertise in areas such as tax policy, information technology, and human capital are also evaluated against technical competencies that may account for 20 to 35 percent of their overall performance assessments.[9] An employee who is considered fully successful in achieving his or her performance commitments, but does not demonstrate the expected competencies, may not be assessed as fully successful in his or her particular position. Conversely, if an employee demonstrates the expected competencies, but does not achieve the agreed to performance commitments, he or she could also be considered less than fully successful. As part of an IRD review of the program conducted in 2000, both managers and staff cited IRD's policy of evaluating individual performance based on both results and competencies as a better way to

[9]The precise mix and weight is based on considerations such as job requirements and specific agency initiatives that place a greater emphasis on a particular competency, such as customer service. The system permits flexibility provided that the mix and weighting for each employee adhere to the ranges set by the department and are clearly articulated, consistently applied, and transparent.

measure staff performance than focusing on only results or competencies alone.

Linking Pay to Individual and Organizational Performance

Results-oriented performance management systems place a greater emphasis on the performance of employees and their contributions to results rather than seniority when determining pay. Agencies use performance pay to recognize, reinforce, and reward high performance. In addition, these organizations offer significant performance awards and use clear criteria when making performance pay decisions. They also emphasize the achievement of organizational results when determining individual performance rewards.

Using Performance Pay to Recognize Executive Contributions

Leading organizations understand the importance of creating effective incentives and rewards for high-performing employees. Our work has shown that one tool organizations can use to maximize their performance, ensure accountability, and achieve their strategic goals and objectives is the effective use of incentives—including pay—to recognize, reinforce, and reward high performance.[10] While the United Kingdom and Canada use a variety of ways, including salary increases, one-time bonuses, or a combination of the two, to link pay to the performance of their executives, in each system the amount of pay available is significant, specifically from 10 to 25 percent of the executive's base pay. In addition, they use clear criteria when they make pay decisions. One challenge to implementing a system that links pay to performance is to ensure that employees perceive that performance pay is awarded fairly.

When designing its new SCS performance management system, which first went into operation with the 2001–2002 fiscal year, the United Kingdom's Cabinet Office focused on better rewarding top performers through pay and bonuses to foster an environment where members of the SCS were challenged to continuously improve their performance. Under the United Kingdom's SCS performance management system, performance pay for executives is dependent upon two factors: (1) individual performance as measured against commitments contained in the executive's performance agreement and (2) the individual's relative performance as judged against

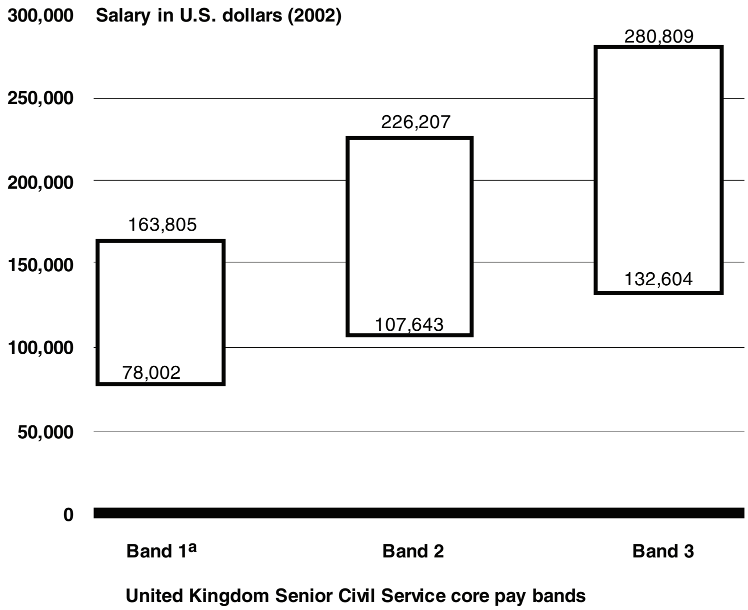
[10] U.S. General Accounting Office, *Human Capital: Using Incentives to Motivate and Reward High Performance*, GAO/T-GGD-00-118 (Washington, D.C.: May 2, 2000).

his or her peers. As a result of this process, members of the SCS are placed into high, medium, and low performance categories, which correspond to the size and type of performance pay they receive.

In contrast to the performance bonuses under the previous system, the United Kingdom's current SCS performance management system is designed to more strongly link pay and performance by awarding top performers larger amounts of performance pay, including salary increases and bonuses of up to 20 percent of base pay. The Cabinet Office also eliminated pay increases based on length of service. The United Kingdom's new SCS performance management system prevents executives performing at an unsatisfactory level from receiving any pay increase, including the annual cost-of-living adjustment typically awarded by the government. Since 2002 is the first year that bonuses are available under the new SCS performance management system, officials at the Cabinet Office told us that they expect the performance awards to remain modest for the first few years but to increase over time.

In another effort to better reward top achievers and increase the flexibility of the system, the United Kingdom increased the range of base pay that can be offered to members of the SCS. For example, in 2002, for executives in Band 1 of the SCS, the lowest of the three core pay bands generally consisting of SCS policy and operational positions such as senior advisors or division heads, salaries can range from about $78,000 to over $163,000—a difference of more than $85,000. For executives in Band 3, the SCS's highest pay band consisting of top leadership posts such as the chief executive of a large agency or the chief financial or legal officers of certain key departments, salaries can range from about $132,600 to over $280,000—a difference of more than $148,000 (see fig. 1).

Figure 1: Ranges for the Three Core Pay Bands of the United Kingdom's SCS



Note: U.S. dollar equivalents of SCS salary rates were calculated based on the value of the United Kingdom pound sterling to the U.S. dollar on July 7, 2002 (£1 = $1.522).

[a]Some departments use an additional pay category, Band 1A, which ranges from $90,483 to $179,406. Departments also have the option of increasing the minimum pay by $5,327 for Band 1 and 1A positions based in London.

Source: GAO analysis of data from the United Kingdom Review Body on Senior Salaries, 2002.

Canada has also strengthened the link between pay and performance for its executives. Under Canada's PMP, introduced in 1999, a significant portion of the total cash compensation package that top and senior executives can receive takes the form of "at-risk" pay. This annual lump-sum payment, which ranges from 10 to 15 percent of base pay for senior executives, and as high as 25 percent for deputy ministers, represents a significant increase over the amounts available to executive-level employees under the program previously in place. The Association of Professional Executives of the Public Service of Canada (APEX) has emphasized the importance of having significant performance bonuses in order for them to be effective motivators.

Another central feature of Canada's PMP is that both increases in base salary and at-risk pay are only awarded to executives who successfully achieve commitments agreed to in their annual performance agreements.

These commitments are of two types: “ongoing commitments,” which include continuing responsibilities associated with the position, and “key commitments,” which identify priority areas for the current performance cycle. Departments award increases in base pay to executives who successfully carry out their ongoing commitments and award at-risk pay to individuals who, in addition to meeting all ongoing commitments, also successfully deliver on key commitments. Executives who do not meet at least one key commitment are not eligible for this lump-sum performance award. Under PMP, there are no automatic salary increases connected with length of service.

The Canadian government has and continues to evaluate the operation and impact of the PMP. In December 2000, an independent advisory committee to the government, the Advisory Committee on Senior Level Retention and Compensation, reviewed the progress of the program to date and determined that it had started well and represented a critical factor in the government’s drive to become more results-oriented. Subsequently, in March 2002, the Advisory Committee identified the at-risk pay provision of the PMP as a critical component of a successful senior-level compensation strategy. In addition, according to an official at the Treasury Board of Canada Secretariat, the Board conducted a preliminary evaluation of the PMP in 2002, for a sample of departments, and will be implementing a framework later this year to monitor and evaluate the program’s effectiveness on an ongoing basis.

Australia’s Centrelink agency encountered challenges when it tried to link pay with performance. A Centrelink official told us that national staff consultations conducted after the first year of the agency’s new performance-based salary advancement program found that employees felt the performance ratings and accompanying pay increases were applied and distributed inconsistently across the agency. Specifically, employees complained that a particular rating might translate into larger or smaller payouts depending on the geographic location of the particular office. The official told us that this practice appears to have resulted in poor perceptions among staff and may have threatened the credibility of the performance management program. This official went on to say that the agency was reconsidering whether to award performance pay in the next cycle while it conducts additional reviews of the program’s implementation.

Emphasizing Organizational Results when Awarding Performance Pay

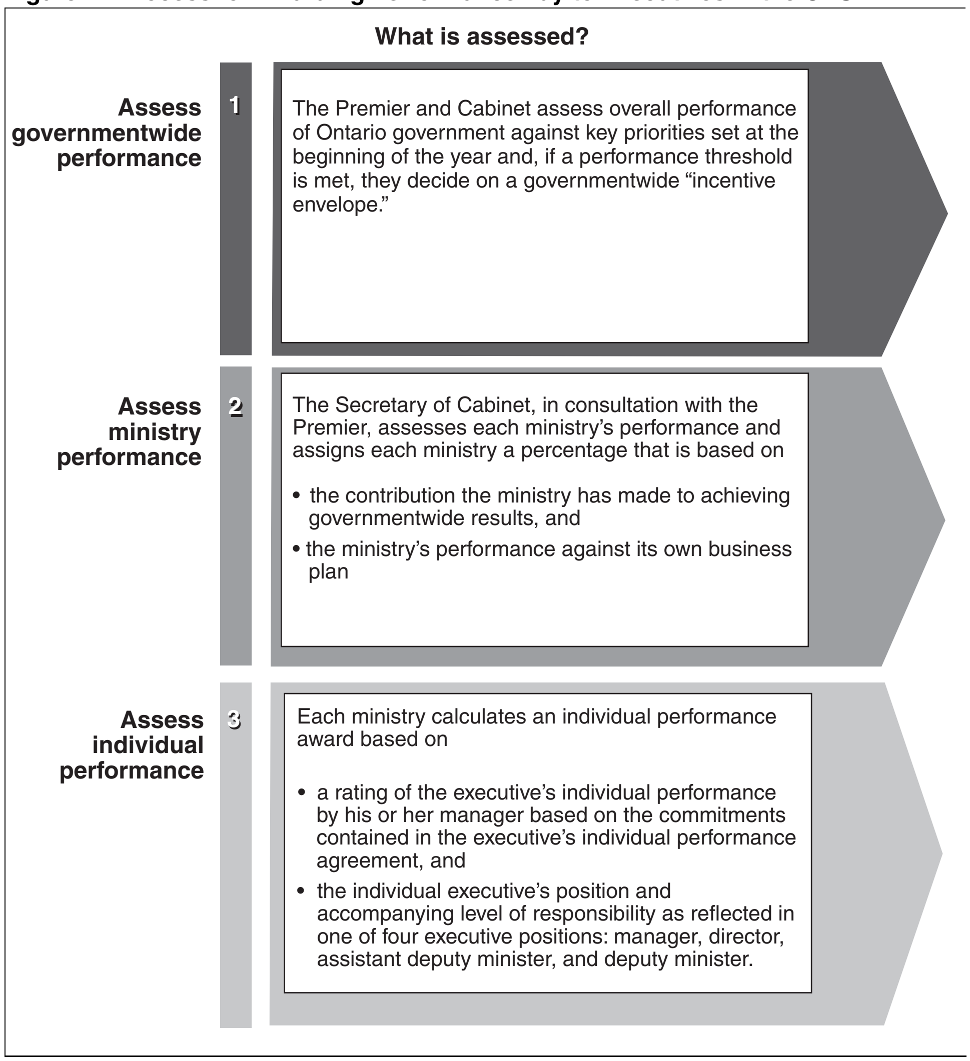
As public sector organizations shift their focus on accountability from outputs to results, they recognize that achieving those results requires teamwork, partnering, and collaboration. OPM has recently reported that the U.S. federal government generally does not provide employees with clear, strong incentives for organizational success. Two performance management systems—the OPS and the Australian Taxation Office (ATO)—place considerable emphasis on the achievement of organizational results when evaluating individual performance and determining individual rewards.

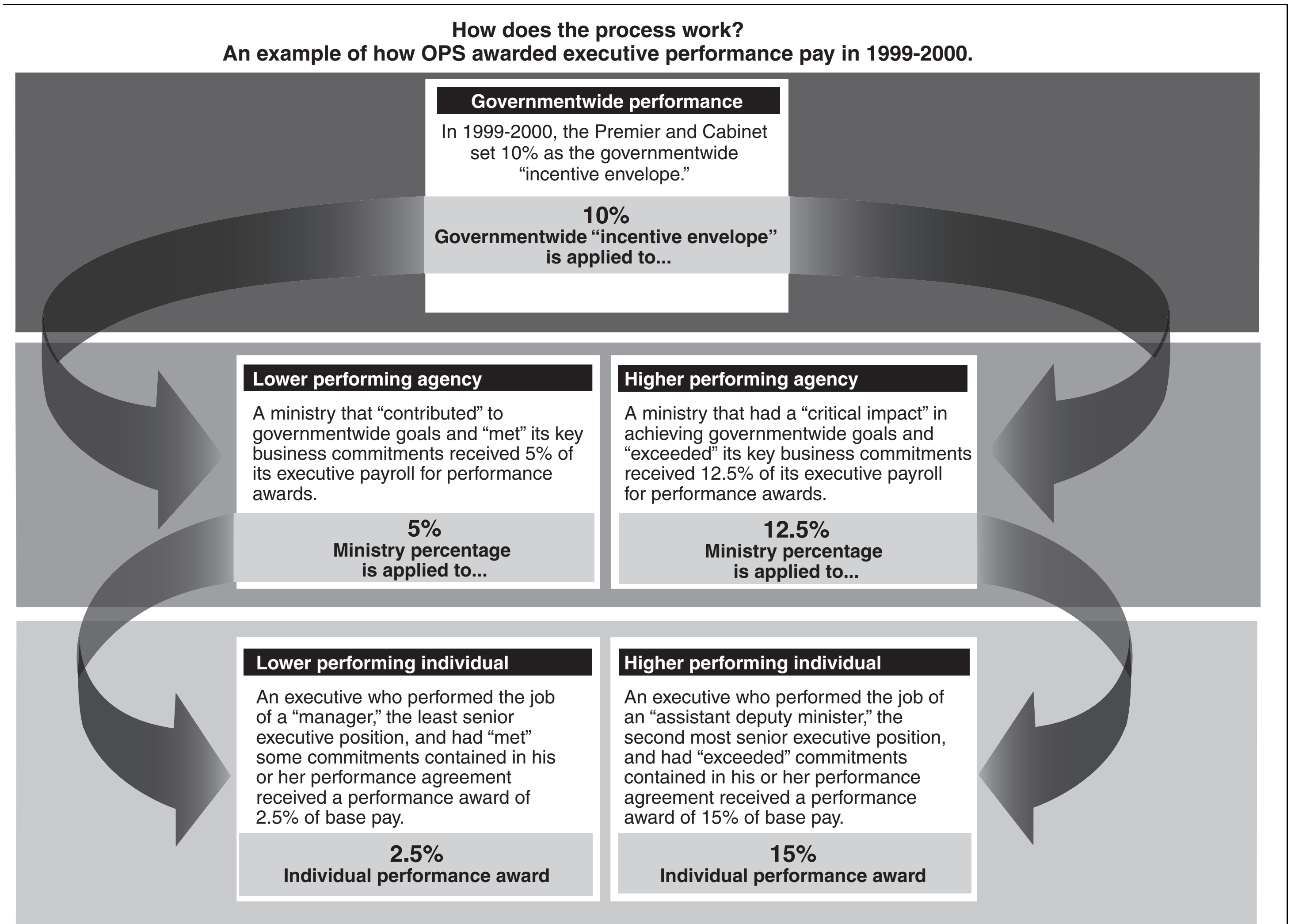
OPS links executive performance pay to the performance of the provincial government as a whole, the performance of the executive's home ministry, the contribution of that ministry to overall governmentwide results, as well as the individual's own performance. The amount of the award an individual executive can receive ranges significantly, from no payment to a maximum of 20 percent of base salary. As shown in figure 2, to determine the amount of performance pay for any given fiscal year, the Premier and Cabinet, the top political leadership of the Ontario government, first determine whether and to what extent the government as a whole has achieved the key provincial goals it established at the beginning of the fiscal year. If they determine that the government has met a threshold of satisfactory performance, these officials designate a certain percentage as the governmentwide "incentive envelope," which represents the percentage that will be the basis for subsequent calculations used to determine performance awards. The Secretary of Cabinet, in consultation with the Premier, then assesses each ministry's performance based on the ministry's relative contribution enabling Ontario to achieve its key provincial goals and the ministry's performance against its own approved business plan. As a result of this assessment, each ministry receives an amount equivalent to a specific percentage of the ministry's total executive payroll for performance awards. Finally, each ministry determines the actual amount of an executive's performance award by assessing both the individual's actual performance against his or her prior performance commitments as well as the individual's level of responsibility.

For example, in the 1999–2000 performance cycle, the Premier and Cabinet determined that the government as a whole had met a threshold of satisfactory performance and set an "incentive envelope" of 10 percent. The Secretary of Cabinet and the Premier then assessed the performance of a particular ministry deciding that it had a "critical impact" on the government's ability to deliver on its results that year, including the roll out of its quality service and e-government initiatives. They also found that this

ministry “exceeded” the key commitments established in its business plan. In this case, the ministry received an amount equivalent to 12.5 percent of its executive payroll towards performance payments. Individual awards, depending upon the performance and position of the executive, ranged from no payment to 15 percent, and could have reached as high as 20 percent under the program’s regulations. In contrast, during the same performance cycle, the Secretary of Cabinet and the Premier found that another ministry had only “contributed” to governmentwide goals while having “met” its business commitments. Accordingly, this ministry received only 5 percent of its executive payroll towards performance payments. Individual awards in this case ranged from no payment to 7.5 percent.

Figure 2: Process for Awarding Performance Pay to Executives in the OPS





Source: GAO presentation of information from the Centre for Leadership, Ontario Cabinet Office.

In 2000, the Australian National Audit Office (ANAO) cited ATO's performance management system as an example of a better practice in the way it links individual pay with organizational results. ANAO reported that since 1998, ATO has linked the size of individual performance bonuses to its success in achieving its organizational outcomes. In the beginning of each assessment year, the ATO Commissioner identifies specific organizational outcomes to be achieved that year with corresponding performance measures. For example, two recent outcomes were to (1) improve debt collection and (2) improve taxpayer service standards. At the end of the year, the Commissioner determines whether ATO achieved its organizational outcomes, and if not, may reduce the size of performance bonuses for midlevel managers and eliminate the bonuses entirely for members of the Senior Executive Service. In addition, general staff may not be eligible to receive an additional 2 percent wage increase if these goals are not met. Throughout the year, employees are kept aware of the agency's progress towards achieving its organizational outcomes and how it may affect their potential performance pay. This is communicated through both regular updates on ATO's intranet and messages from the Commissioner that identify areas where further improvement is needed in order to achieve the desired goals.

The experience of the Family Court of Australia shows the importance of emphasizing organizational performance when rewarding executives on the basis of their individual performance. According to a Court official, despite the existence of a strong shared vision in the Court's strategic goals and mission, the introduction of a program that offered bonuses to senior executives of up to 10 percent of base pay for achieving individual performance commitments had the unintended consequence of undermining the organization's culture of teamwork and open communication, and distracted some executives from focusing on organizational results. According to this official, a divisive and unhealthy sense of competition arose among individual executives. Primarily, this took the form of selective sharing of ideas and information with their peers to provide them with a competitive advantage in obtaining bonuses at the end of the year. This official further told us that the Court found evidence suggesting that such behavior led this group of executives to fail to appreciate their shared responsibilities for achieving the organization's goals. As a result of this experience, the Court plans to no longer offer any type of individual performance bonuses in the future.

Fostering Organizationwide Commitment to Results-Oriented Performance Management

A key ingredient to developing a results-oriented culture is for organizations to empower and involve their employees. Our past work shows two factors that play an important part: (1) top leadership that demonstrates a real and sustained commitment to transforming the organization's culture and (2) employees who are constructively involved and engaged to provide their perspectives.[11] Agencies used both of these factors in their efforts to foster organizationwide commitment to results-oriented performance management. To this end, top leaders in the United Kingdom and Canada have demonstrated their support and commitment when establishing performance management systems focused on results. In addition, in the United Kingdom, Canada, and New Zealand, agencies involved stakeholders, particularly employees, to increase acceptance of results-oriented performance management reforms. They also consulted a wide range of stakeholders, obtained feedback directly from employees, and engaged employee unions or associations.

Demonstrating and Sustaining Top Leadership Commitment

The clear and sustained commitment of an agency's top leadership to change is perhaps the single most important element of successful transformation and management improvement initiatives. This commitment is most prominently shown through the personal involvement of top leaders in developing and directing reform efforts. In the United Kingdom and Canada, top leaders have sponsored and supported performance management reforms that placed an emphasis on results.

Performance management reform, a key element of a broader Civil Service Reform agenda in the United Kingdom, received direct support from the highest levels of leadership within the civil service. In October 1999, the head of the United Kingdom's Home Civil Service, along with the permanent secretaries in charge of the major government departments, recommended the creation of a new, more results-oriented performance management system, a revision of SCS competencies, and improved training for managers on performance issues. A permanent secretary of one of the major government departments formed a working group to develop the details of the new performance management system, and individual permanent secretaries took responsibility to drive performance management reform forward within their respective departments. These

[11]GAO-01-1070 and U.S. General Accounting Office, *Management Reform: Elements of Successful Improvement Initiatives*, GAO/T-GGD-00-26 (Washington, D.C.: Oct. 15, 1999).

efforts led to a new performance management system that was implemented governmentwide in April 2001.

In Canada, the President of the Treasury Board established the Advisory Committee on Senior Level Retention and Compensation, whose recommendations led to the reform of Canada's performance management system for all deputy ministers and executives in 1999. Other important human capital decision makers, including the Clerk of the Privy Council—the head of the Canadian Public Service—and the Secretary of the Treasury Board have also identified the program as a priority.

Another way top leaders demonstrate their commitment to results-oriented performance management systems is to personally use performance agreements. For example, the Clerk of the Privy Council uses performance agreements with each of the 29 deputy ministers responsible for Canada's federal departments as the basis on which he awards performance bonuses of up to 25 percent of base pay. The Clerk also uses these performance agreements as a mechanism to convey governmentwide priorities that he has identified as being of particular importance during the upcoming fiscal year based on the government's agenda and the needs of the Canadian Public Service.

Involving Stakeholders and Including Employee Perspectives

The involvement of employees is crucial to the success of new initiatives. Performance management systems are more effective when employees perceive the process to be fair and the criteria to be clearly defined, transparent, and consistently applied. We have reported that leading organizations have found that by actively involving employees, unions, or other employee associations when developing results-oriented performance management systems, employee confidence and belief in the fairness of incentive programs improves due to an understanding of why certain employees were rewarded.[12] To involve stakeholders and employees when reforming their performance management systems, agencies consulted a wide range of stakeholders early in the process, obtained feedback directly from employees, and engaged employee unions or associations.

[12] GAO-02-373SP and GAO/T-GGD-00-118.

<u>Consult a Wide Range of Stakeholders Early in the Process.</u> An important step to ensure the success of a new performance management system is to consult a wide range of stakeholders and to do so early in the process. For example, for its new SCS performance management and pay system, the United Kingdom's Cabinet Office recognized the importance of meeting with and including employees and stakeholders in the formation of the new system. The Cabinet Office obtained feedback from various employee associations, a civil servant advisory group, a project board comprised of personnel directors, and permanent secretaries.

As part of Canada's effort to consult stakeholders concerning its new performance management system, the government convened an interdepartmental committee to explore and discuss possible approaches, consulted networks of human capital professionals and executives across the country, and engaged top executives through the Committee of Senior Officials, consisting of the Clerk of the Privy Council and heads of major departments and other top officials.

<u>Obtain Feedback Directly from Employees.</u> Directly asking employees to provide feedback on proposed changes in their performance management systems encourages a direct sense of involvement and buy-in, allows employees to express their views, and helps to validate the system to ensure that performance measures are appropriate. For example, the United Kingdom's Cabinet Office provided a packet detailing proposed reforms of the existing performance management system to approximately 3,000 members of the SCS in a large-scale effort to obtain their feedback on the proposed changes. In addition, each department also held consultations where individuals listened to proposed reforms. More than 1,200 executives (approximately 40 percent of the SCS) participated in the process. The Cabinet Office then collected and incorporated these views into the final proposal, which was adopted by the government and implemented in April 2001.

In June 2002, New Zealand's Department of Child, Youth, and Family Services (CYF) and its primary union, the Public Service Association (PSA), sought direct feedback from employees by asking them to vote on and approve the specific measures that the department would use to assess their individual performance. CYF and PSA first sought feedback from employees including social workers and adoption supervisors and will soon approach employees in clerical and policy positions. A PSA official told us that if employees did not approve a particular set of measures, a working group consisting of CYF and PSA representatives would revise the

measures for a subsequent vote by the employees. Although the use of employee voting is still new, a union official told us that he believes the technique is likely to significantly increase employee acceptance and the validity of CYF's performance management system.

Engage Employee Unions or Associations. We have previously reported that in the United States obtaining union cooperation and support can help to achieve consensus on planned changes, avoid misunderstandings, and assist in the expeditious resolution of problems.[13] Agencies in the United Kingdom, New Zealand, and Canada actively engaged unions or employee associations when making changes to performance management systems.

Senior officials at both the United Kingdom's Cabinet Office and the First Division Association, the SCS employee association, told us about the positive working relationship that resulted from the constructive dialogue that existed between the two groups. One technique that facilitated this working relationship was a requirement for dialogue and consultation in a preexisting formal agreement between the employee association and the government. According to a senior employee association official, this required dialogue and consultation resulted in a more inclusive effort than had taken place in the past and held the promise of developing a performance management system that staff would view as fair and transparent. Cabinet Office officials have announced their plans to engage departments and the SCS employee association over the coming months as part of a formal evaluation of the pay decisions under the new performance management system.

In New Zealand, an agreement between government and the primary public service union created a "Partnership for Quality" framework that provides for ongoing, mutual consultation on issues such as performance management. Specifically, CYF and PSA entered into a joint partnership agreement that emphasizes the importance of mutual consideration of each other's organizational needs and constraints. For example, two of the objectives stated in the 2001–2002 partnership agreement are to (1) develop the parties' understanding of each other's business and (2) equip managers, delegates, and members with the knowledge and skills required to build a partnership for a quality relationship in the workplace. Department and union officials told us that this framework has considerably improved how

[13] GAO-01-1070.

both parties approach potentially contentious issues, such as employee performance management. Also included in the partnership agreement are measures to evaluate the success of the relationship such as (1) sharing ownership of issues, plans, and outcomes and (2) quickly resolving issues in a solution-focused way, with a reduction in grievances.

The government of Canada repeatedly consulted with APEX, the executive professional association, about its proposed reforms to the executive performance management system and accompanying pay-at-risk provisions. This dialogue began prior to the system's rollout and continued through initial implementation during which APEX was actively involved in collecting feedback from executives as well as making recommendations. For example, as part of an assessment of PMP based on consultations APEX had with its membership after the first year of the program, APEX identified several issues needing further attention including the need to provide executives with additional guidance on how to develop their individual performance agreements, particularly with regard to identifying and selecting different types of performance commitments. This recommendation and others were shared with the government and the official PMP guidance issued the following year incorporated these concerns.

Concluding Observations

As governments both in the United States and around the world continue to place a greater emphasis on achieving organizational results, there is a growing recognition of the importance of fostering a results-oriented culture among employees in order to accomplish this. The experiences of Australia, Canada, New Zealand, and the United Kingdom provide insights into how other countries are using performance agreements, competencies, and performance pay in their individual performance management systems to connect employee performance with agency results, and to recognize and reward employees for focusing on achieving results. As these governments began to use their performance management systems to help achieve their organizational goals, they worked to foster an organizationwide commitment to these systems.

While each government's and agency's performance management system reflects its specific organizational structure, culture, and priorities, their experiences provide a useful point of reference as U.S. agencies examine their own performance management systems and consider how to more closely link the performance of their employees to the results the American people expect.

Agency Comments

We provided drafts of the relevant sections of this report to cognizant officials from the central agency responsible for human capital issues, individual agencies, and the national audit office for each of the countries we reviewed. They generally agreed with the contents of this report. We made minor technical clarifications where appropriate. Because we did not evaluate the policies or operations of any U.S. federal agency in this report, we did not seek comments from any agency. However, because of OPM's governmentwide responsibility for performance management in the federal government, we provided a draft of this report to the Director of OPM for her information.

We are sending copies of this report to other interested congressional committees, the directors of OPM and OMB, and the foreign government officials contacted for this report. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you have any questions concerning this report, please contact me or Lisa Shames on (202) 512-6806. The major contributor to this report was Peter J. Del Toro; Leslie Carsman, Jerome Nagy, and Leah Querimit Nash also made key contributions.

J. Christopher Mihm
Director, Strategic Issues

Objective, Scope, and Methodology

To meet our objective to describe how other countries have begun to use individual performance management systems to help them achieve organizational results, we selected Australia, Canada, New Zealand, and the United Kingdom based on our earlier work examining their implementation of results-oriented management reforms.[14] We reviewed the public management literature including general surveys of human capital management practices and reforms conducted by the Organisation for Economic Co-operation and Development (OECD) and academics both in the United States and abroad. We also reviewed country profiles of human capital and performance management practices in specific countries and spoke with public management experts to provide additional context and analysis. Based on this research, we decided to include the government of the Canadian Province of Ontario in this review.

We analyzed policies, guidance, training, and other materials on performance management systems for agencies in these countries along with government-sponsored evaluations of these systems when available. We also visited Australia, Canada, New Zealand, and the United Kingdom to interview officials from each country's government. To obtain a variety of perspectives, we spoke to officials from the countries' national audit offices; central management and human capital agencies; agencies responsible for a range of functions including policy development, regulation, and service delivery; representatives of employee associations; and academics.

We identified the examples described in this report through evaluations by and discussions with officials from central human capital agencies or national audit offices. We did not independently evaluate the effectiveness of the performance management systems used in the four countries. We also did not attempt to assess the prevalence of the practices or challenges we cite either within or across the four countries. Therefore, agencies other than those cited for a particular practice may, or may not, be engaged in the same practice. We use the term "agency" generically to refer to entities such as departments, ministries, and line agencies, except in describing specific examples where we use the term appropriate to that case.

[14] U.S. General Accounting Office, Managing for Results: *Experiences Abroad Suggest Insights for Federal Management Reforms*, GAO/GGD-95-120 (Washington, D.C.: May 2, 1995).

We conducted our work from April 2001 through June 2002 in Washington, D.C., and the four countries in accordance with generally accepted government auditing standards. We provided drafts of the relevant sections of this report to officials from the central agencies responsible for human capital issues, the individual agencies, and the national audit office for each of the countries we reviewed. We also provided a draft of this report to the Director of OPM for her information.

Key Human Capital Decision Makers in Australia

The government of Australia employed about 118,600 public servants in 18 major departments and 81 agencies as of June 2001.

Key Human Capital Decision Makers in the Australian Public Service

Australian Public Service Commission (APSC). APSC is the key central government organization responsible for human capital management issues in the Australian Public Service. APSC is responsible for fostering a high performing public service by promoting high-quality human capital management, but does not promulgate prescriptive rules. For example, APSC developed a principles-based management framework that consists of a statement of Australian Public Service values as well as a code of conduct that all agency heads are to promote and uphold. APSC supports this framework by issuing guidance to agencies on the application of these principles. The APSC also provides a variety of training and other support services to agencies but does not intervene in the daily human capital management that takes place within the agencies. APSC also provides and facilitates training and development for members of the Senior Executive Service, and has established a leadership capability framework that agencies use to select senior executives and, in some agencies, evaluate their individual performance. In addition, APSC is responsible for evaluating and reporting on the government's overall performance and numerous human capital issues, including recruitment, retention, leadership, performance management, and workforce planning.

Department of Employment and Workplace Relations (DEWR). DEWR plays a key role in helping departments and agencies develop workplace relations arrangements that are consistent with the government's objective of building a high-performing public sector. Since 1997, responsibility for setting pay and conditions of employment has been devolved to individual agencies, with nearly all public sector employees now covered by either collective certified agreements or individual Australian workplace agreements in accordance with the Workplace Relations Act of 1996. As a central part of its work, DEWR reviews and assesses agencies' certified agreements for their consistency with government policy requirements. Certified agreements set out the terms of employment agreed to by agencies and employees including issues such as employee leave, salary and wage increases, performance pay, and working conditions. Generally, individual Australian workplace agreements are agreed to by agencies and senior executives; DEWR highlights the potential benefits of these agreements. DEWR also provides support, advice, training, and consultancy services to agencies to promote effective agreement making across the Australian Public Service.

Individual Departments and Agencies. The Public Service Act of 1999 devolved almost all human capital management responsibilities to individual departments and agencies. Individual chief executives have wide discretion in how they structure and operate their organizations in order to achieve certain performance goals, which are specified in performance agreements with the government. The legislation grants chief executives all rights, duties, and powers of an employer, and they may negotiate compensation with individuals or groups of employees. In Australia, government staff are typically employed under the terms of a collective certified agreement or individual Australian workplace agreements. Both of these agreements allow flexibility to the employees and the chief executive of the department or agency when determining salary, performance bonuses, annual leave, and other terms of employment.

Sources for Additional Information

For additional information on the Australian departments and agencies discussed in this report, Australia's key human capital decision makers, and the Australian National Audit Office's work on this topic, please see the following sources:

- Australian Public Service Commission (APSC)
  http://www.apsc.gov.au
- Australian Taxation Office (ATO)
  http://www.ato.gov.au
- Department of Employment and Workplace Relations (DEWR)
  http://www.dewr.gov.au
- Family Court of Australia
  http://www.familycourt.gov.au
- Centrelink
  http://www.centrelink.gov.au
- Australian National Audit Office (ANAO)
  http://www.anao.gov.au

Key Human Capital Decision Makers in Canada and Ontario

The federal government of Canada employed about 155,000 public servants working in 29 major departments and 60 agencies as of March 2001. The Ontario Public Service employed about 64,600 public servants in 20 ministries as of June 2002.

Key Human Capital Decision Makers in the Canadian Public Service

Three agencies are primarily responsible for central human capital management in the Canadian Public Service: (1) the Privy Council Office, (2) the Treasury Board of Canada Secretariat, and (3) the Public Service Commission.

Privy Council Office. The Privy Council Office plays a key leadership role in setting the strategic direction for Canada’s management of its human capital. It is responsible for the overall effectiveness of the public service, its competent and efficient administration, and ensuring the strategic management of Canada’s senior public service. The Clerk of the Privy Council, the head of the Privy Council Office and the functional head of Canada's civil service, is responsible for its day-to-day management and provides policy advice to the Prime Minister on human capital issues. The Clerk is supported by the Committee of Senior Officials, which provides him or her with advice on various management and human capital issues. The Committee consists of senior deputy ministers in charge of major departments, the Secretary of Treasury Board Secretariat, and the President of the Public Service Commission. The Privy Council Office is also specifically responsible for the strategic management of top executives and administers Canada's Performance Management Program for deputy ministers. It also provides advice and support for the (1) selection of deputy ministers and other appointees, (2) the related processes for performance review, compensation, and termination, and (3) career planning for deputy ministers.

Treasury Board of Canada Secretariat. The Treasury Board of Canada Secretariat supports the cabinet-level Treasury Board in its role as the employer and general manager of the public service. It recommends and provides advice to the Treasury Board on policies, directives, regulations, and program expenditure proposals with respect to the management of the government’s human capital, on topics such as employment equity, official languages, and employer-relations in the public service. The Treasury Board of Canada Secretariat is also responsible for collective bargaining and employees’ entitlements and administers Canada’s Performance Management Program for executives.

Public Service Commission. The Public Service Commission is responsible for the recruitment, selection, and appointment of qualified individuals to the public service, and for providing impartial recourse for challenging appointments and for employee resourcing-related complaints. The Commission reports directly to Parliament to ensure the competence, diversity, and nonpartisanship of the public service. It is also responsible for ensuring that staffing in the public service is based on merit and fairness and is without discrimination, but the Commission delegates many of its staffing responsibilities to individual departments and agencies except in the area of recourse. Its three commissioners are appointed to 10-year terms and are responsible for ensuring the fulfillment of the Commission's mandate and responsibilities.

Individual Departments and Agencies. While departments and agencies are primarily responsible for implementing policies developed by central agencies such as the Treasury Board of Canada Secretariat and the Public Service Commission, they have management responsibilities in areas such as recruiting, deployment, and promotion.

Key Human Capital Decision Makers in the Ontario Public Service

Three agencies and one committee are primarily responsible for human capital management in the Ontario Public Service (OPS): (1) the Civil Service Commission, (2) the Cabinet Office, (3) the Management Board Secretariat, and (4) the Executive Development Committee.

Civil Service Commission. The Civil Service Commission monitors the government's performance as an employer particularly with regard to the promotion of merit principles and OPS values. The Commission promulgates regulations on a wide range of human capital issues, including salaries, classifications, recruitment, and benefits. It also approves appointments to the senior levels of the OPS.

Cabinet Office. The Cabinet Office provides advice and analysis to the Premier, the political leader of the Ontario provincial government. The Cabinet Office oversees the OPS to improve its effectiveness, efficiency, and organization. The Cabinet Office also works with the Premier's Office to develop proposals for the government's strategic policy priorities and to devise the legislative agenda. The Cabinet Office communicates with the other central agencies to ensure that the government's strategic policy and legislative agenda are integrated with planning processes and fiscal and resource issues. The Centre for Leadership, housed within the Cabinet

Office, is responsible for managing an integrated human capital plan for OPS executives including the performance management program.

Management Board Secretariat (MBS). MBS manages the Ontario government's financial, human, physical, and technological assets and resources and provides strategic advice to the Management Board, a cabinet committee responsible for determining how the government operates and manages the public service. MBS is the official employer of the OPS and sets management policies, guidelines, and accountability frameworks; manages the grievance process; and administers the compensation program for executives and managers. MBS is also responsible for coordinating the performance management system for levels below the executive level.

Executive Development Committee. The Executive Development Committee manages the development of policies and practices for senior executives in the OPS as well as their recruitment, succession planning, education, training and development, and performance management. The Committee was established in 1986 to provide leadership in human capital planning and is comprised of seven senior deputy ministers and chaired by the Secretary of Cabinet.

Individual Departments and Agencies. Ministries are responsible for implementing policies developed by central agencies such as the Cabinet Office and MBS in matters such as pay and remuneration, performance management, and strategic human capital planning and succession planning. Ministry chief executives have greater autonomy in areas such as recruiting and training and development.

Sources for Additional Information

For additional information on the departments and agencies from Canada and Ontario discussed in this report, key human capital decision makers, and the Canadian and Ontario central audit offices' work on this topic, please see the following sources:

Government of Canada:

Privy Council Office
http://www.pco-bcp.gc.ca

Treasury Board of Canada Secretariat
http://www.tbs-sct.gc.ca

Public Service Commission
http://www.psc-cfp.gc.ca

Agriculture and Agri-Food Canada (AAFC)
http://www.agr.gc.ca

Industry Canada
http://www.ic.gc.ca

Office of the Auditor General of Canada
http://www.oag-bvg.gc.ca

Province of Ontario:

Civil Service Commission
http://www.gov.on.ca/MBS/english/mbs/civilplan.html

Management Board Secretariat (MBS)
http://www.gov.on.ca/MBS/english/mbs

Office of the Provincial Auditor of Ontario
http://www.gov.on.ca/opa

Key Human Capital Decision Makers in New Zealand

The government of New Zealand employed about 30,400 public servants among its 36 departments and other agencies as of June 2001.

Key Human Capital Decision Makers in the New Zealand Public Service

State Services Commission. The State Services Commission is the central human capital management agency for the public service. Under the State Sector Act of 1988, the Commission is responsible for promoting, developing, and monitoring human capital management within each department and providing advice on training and developing staff. For example, it issues reports identifying key human capital challenges facing the New Zealand Public Service, which are used to facilitate discussion on specific issues and advice to government. The Commission determines whether the state sector has the human capital, information resources, and management structures to deliver the government's objectives. The State Services Commissioner is responsible for appointing the chief executives of departments and determines their remuneration and reviews their performance. Each chief executive enters into a performance agreement with the minister for his or her Department, which outlines specific performance commitments and serves as the basis of his or her evaluation at the end of the year. The State Services Commission has developed a set of leadership competencies to assist in recruiting, developing, and retaining chief executives as part of a larger management framework.

Individual Departments and Agencies. The State Sector Act of 1988 devolved almost all human capital management decision making to individual departments and agencies and their chief executives. Individual chief executives are given broad discretion to develop and implement their own human capital policies and practices to meet the specific needs of their organizations and employees.

Sources for Additional Information

For additional information on the New Zealand departments and agencies discussed in this report, the key human capital decision makers, and the New Zealand central audit office's work on this topic, see the following sources:

State Services Commission
http://www.ssc.govt.nz

Department of Child, Youth, and Family Services (CYF)
http://www.cyf.govt.nz

Inland Revenue Department (IRD)
http://www.ird.govt.nz

Office of the Controller and Auditor General
http://www.oag.govt.nz

Key Human Capital Decision Makers in the United Kingdom

The government of the United Kingdom employed about 489,800 public servants working in 17 major departments and 92 executive agencies affiliated with those departments as of October 2001.[15]

Key Human Capital Decision Makers in the United Kingdom Public Service

The Cabinet Office. The Cabinet Office provides central guidance and serves as the major human capital player in the government of the United Kingdom, and is responsible for developing and implementing the central government's human capital policies. The Cabinet Office divides its work into a number of policy areas, including recruiting, training, developing, and paying employees. The Cabinet manages the Senior Civil Service (SCS) and specifically oversees senior management pay and performance, executive-level recruitment, and succession planning. The Cabinet Office also serves as the primary mechanism for relaying central human capital policy to departments and executive agencies. In the area of recruitment and appointment to senior positions, the Cabinet Office shares oversight and coordination with the Office of Civil Service Commissioners.

Individual Departments and Agencies. The Civil Service Management Code, which defines the relationship between the central government and individual government departments and executive agencies, delegates considerable responsibility to departments and executive agencies in determining human capital needs. With guidance from the central government, departments and executive agencies handle daily human capital management functions, including recruitment, the number and grading of posts, classification of staff, remuneration, allowances, expenses, work arrangements, performance and promotion, and retirement age for positions below the SCS.

Sources for Additional Information

For additional information on key human capital decision makers and the National Audit Office's work on this topic, see the following sources:

The Cabinet Office
http://www.cabinet-office.gov.uk

[15]These figures exclude employees and departments and agencies in the devolved governments of Scotland and Northern Ireland.

Office of Civil Service Commissioners
http://www.cabinet-office.gov.uk/ocsc/index.htm

National Audit Office
http://www.nao.gov.uk

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